



WRITTEN TESTIMONY

**TIM YATSKO
SENIOR VICE PRESIDENT OF
WAL-MART STORES, INC.
BENTONVILLE, ARKANSAS**

***"FREIGHT LOGISTICS: THE ROAD AHEAD AS SEEN
BY THE USERS OF THE HIGHWAY SYSTEM"***

**BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON HIGHWAYS, TRANSIT & PIPELINES**

THURSDAY, SEPTEMBER 7, 2006

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Chairman Petri, Ranking Member DeFazio and distinguished members of the Committee:

Wal-Mart Stores, Inc. appreciates the opportunity to participate in this critical discussion. The transportation infrastructure of the U.S. is vital to the success of Wal-Mart and, we believe to the nation's economy.

Today, I will discuss Wal-Mart's logistics network and transportation strategy, as well as describe how we deal with congestion that has impacted us in the past and how we plan to deal with congestion in the future. We are hopeful our model and actions can provide insight into how we can all work together to keep the U.S. economy growing and thriving via the nation's highway transit system.

Background

My name is Tim Yatsko. I am Senior Vice President of Transportation for Wal-Mart Stores, Inc.

I began my career with Wal-Mart in 1990. I served in various positions in the private truck fleet division, including Quality Assurance Manager, and Director of Private Fleet Operations. I moved to the Direct Imports department as its Director in 1998 and was appointed Vice President, Direct Imports Administration and Logistics in 1999. Currently, as Senior Vice President of Transportation, I am responsible for product movement from suppliers to Wal-Mart distribution centers and product movement from distribution centers to stores. Prior to joining Wal-Mart, I worked as a Sales Representative for Sysco Foods and served as a Captain in the US Army from 1983 to 1990.

Based in Bentonville, Arkansas, Wal-Mart is the world's largest retailer. The company employs more than 1.8 million associates worldwide and each week more than 176 million customers visit our stores. Last year Wal-Mart had net sales of \$312 billion. In the United States, Wal-Mart operates more than 3,800 Wal-Mart Stores, Supercenters, Neighborhood Markets, and SAM'S CLUBS. Outside the U.S. Wal-Mart operates more than 2,200 units.

Overview

Wal-Mart owns one of the largest private truck fleets in the country. We believe our logistics network is one of the most efficient in the country. We are eager to share our model, to the extent that we can, in order to improve the nation's transportation infrastructure system and to help users navigate it in the most effective manner possible.

Wal-Mart's Role in Today's Hearing

As we understand it, Wal-Mart's role in testifying today is to provide the Committee our perspective, as a user of our nation's highway system, on the importance of a reliable and well funded transportation infrastructure system, particularly the highway system. In general, you asked us to discuss our model and how it works. Specifically, you asked us to touch upon the following issues:

- Given the shift toward just in time delivery over the past 10 years, how important is a reliable and well funded transportation system when making logistics decisions?
- What factors do companies like Wal-Mart use when making decisions on how to move goods from ports to distribution centers and from distribution centers to retail centers?
- Are there certain highway or other transportation "choke-points" around the country that Wal-Mart avoids because the delays associated with these "choke-points" add unnecessary costs to Wal-Mart's bottom line?

Overview of Wal-Mart's Logistics Network

Wal-Mart's logistics network includes 117 distribution centers ranging from 800,000 square feet to over 4 million square feet. These distribution centers service all our regional, grocery, fashion, specialty and SAM'S CLUB needs. As we increase the number of our stores, we must increase the efficiency and number of our distribution centers to maintain an efficient delivery network. We have four distribution centers scheduled to open in 2007.

More specifically, we have 39 general merchandise distribution centers including seven centers that exclusively handle our fashion needs. The average distance from these general merchandise distribution centers to a store is 130 miles. These distribution centers ship about 1.6 billion cartons a year.

Wal-Mart carefully plans and coordinates the outbound flow from the general merchandise distribution centers. After delivery, our trucks change from delivery mode to supplier mode and move products back to the distribution centers from our suppliers.

We dispatch on a regional basis, so a driver delivering to a store may in turn be required to pickup from a supplier, then head to a neighboring distribution center with that load, only to return toward home with yet another store load from the neighboring distribution center.

Further, Wal-Mart has 37 grocery distribution centers. The average distance from these grocery distribution centers to a store is 156 miles and the centers ship about 740 million cartons a year. Finally, Wal-Mart has distribution centers that service its SAM'S CLUBs, as well as specialty distribution centers dedicated to things such as tires, returns, imports, and online products.

How We Move Freight

Wal-Mart utilizes both a private truck fleet and third party carriers to move freight into and out of the distribution center network. Our private truck fleet consists of more than 8,000 drivers using 6,845 tractors and 43,650 trailers out of 42 terminals and 4 regional operating centers. Our drivers log about 916 million miles per year making 1.8 million store deliveries and 1.3 million backhauls from suppliers. Our fleet has been ranked the safest in the U.S. eight of the last nine years (ATA Large Fleet Category) and we experience a low annual turnover rate among our drivers of 4 percent. This fleet moves about 50 percent of our total freight volume.

In addition to our private truck fleet, as a shipper and receiver moving freight in and out of our distribution centers, we utilize a wide array of transportation modes including dry and refrigerated trucks, inter-modal rail, less than truckload (LTL) motor carriers, dedicated truck grocery carriers, small package and express carriers, air carriers and ocean carriers. We use barges, ships and trucks to service locations in Alaska, Hawaii and Puerto Rico.

Volume

Each year, inbound to its distribution centers, Wal-Mart moves 1.3 million loads on its own truck fleet; 1.4 million loads on over 160 different 3rd party carrier trucks, 500,000 loads on LTL motor carriers, and 350,000 SAM'S CLUB loads. Sixty-nine percent of our total loads are moved by truck, 20 percent by LTL motor carrier, 7 percent by small package carriers, 2 percent by ocean freight, and 1 percent by consolidators.

Logistics Strategy

Wal-Mart's logistics strategy is driven by its corporate strategy which is to (1) drive international growth; (2) broaden appeal to customers; (3) become an even better place to work; (4) improve operations and efficiency; and (5) make unique contributions to the community. The key focus of our transportation strategy is efficiency.

Maintaining the correct assortments by store and in-stock is the end goal. In order to meet this goal, we continually work to utilize leading edge technology to decrease lead time from suppliers to our store shelves. This allows us to maintain high in-stock levels and minimal inventory levels while keeping prices low.

When considering how to move goods from ports or distribution centers to our stores and clubs we take many steps in order to maintain logistics efficiency. We choose channels that are most cost efficient and reliable. As a rule, we believe cost efficient, reliable supply chains are

also the most environmentally friendly. We avoid transportation congestion risks by maintaining multiple channels or distribution points.

Daily, we confront and deal with exceptions to prevent lead time disruptions. These exceptions include traffic and transit delays and transportation capacity issues.

Wal-Mart's Transportation Strategy

Regardless of what occurs in the transportation environment, our transportation goals remain constant. We strive to always remain:

- Safe
- Secure
- Efficient
- Environmentally Friendly

A key element of remaining efficient is our focus on just in time delivery and improving driver and truck productivity. This is particularly challenging in congested metropolitan areas. In a sampling of metropolitan markets, Wal-Mart averages 21.26 percent fewer miles per tractor per week than in rural markets and 14.39 percent fewer miles per tractor than our entire fleet average.

As a transportation organization, Wal-Mart has successfully dealt with congestion for years. We innovate and work around congestion. While some methods simply cost us money, many ended up saving us money. Some of our methods to mitigate congestion and maintain truck/driver productivity include:

- Pick up and delivery operations
- Consolidation facilities
- Trailer pools that enable "drop and hook" delivery versus live loading/unloading
- Driver and delivery schedule changes (night versus day; weekend versus week day)
- Supplier pick up schedule changes
- Truck versus rail decisions
- Import Port-Split Strategy

Let me expand on that last method as an example. We began to experience an influx of imports into our network from overseas into Los Angeles in the late 1990s. The congestion in Los Angeles began to impact our ability to flow goods to our stores. So, we split our shipments to flow through ports on the East coast and Gulf to avoid congestion in Los Angeles. This strategy has been very successful for us, neutralizing both the costs and risks of congestion.

Key Challenges in the Transportation Industry

As successful as we believe our logistics and transportation networks are, we continue to face challenges that cause us to change. As Wal-Mart grows, we anticipate the following freight flow challenges within our logistics network:

- Highway Congestion
- Rail Network Capacity
- Driver Shortage
- Fuel Efficiency and Sustainability
- Import Gateway Capacity
- Security

We will address these challenges with the following strategies:

- Reduce the number of trucks and trailers on the road in metropolitan markets
- Keep our trucks safe, fuel efficient and environmentally friendly
- Keep our networks flexible to change as congestion conditions change
- Compensate for rail shortfalls with shifts of supplier ship points and use of trucks

In addition, a few specific initiatives we currently are working on include:

- Remaining governed at 65 miles per hour in our trucks
- Optimizing use of longer, higher cube trailers and double trailers where allowed
- Reducing packaging on all product lines;
- Utilizing hybrid diesel and energy recovery concepts to eliminate emissions
- Assist and advise state and national associations – seeking other best practices

While we believe Wal-Mart's associates and logistics network can deal with the challenges in the future transportation environment, we also believe we can work together with others in the industry, members of Congress and government officials to develop solutions for the challenges together.

The Department of Transportation projections are not promising with regard to congestion. The transportation infrastructure must be improved and expanded.

Conclusion

Thank you again for allowing us to participate today. We hope we have provided you with some insight into our transportation challenges and strategies. We are eager to continue sharing all we can into the future to make our nation's transportation infrastructure the best it can be.